GRAIN ALLIANCE

ANNUAL REPORT 2012

Restoring the Bread Basket of the World

Alex Oronov, Founder and CEO

WHO WE ARE

Grain Alliance is a modern farm operator in Ukraine. The company controls 45 000 hectares in Ukraine, out of this area 38 000 is cultivated. Ukraine was once the "bread basket of Europe" and still has one of the most fertile soils in the world. Grain Alliance's overall business strategy is to generate sustainable returns by increasing productivity and efficiency in the Ukrainian agriculture by implementing best agricultural practices, modern equipment and strict financial control. The underlying macroeconomic drivers for the business is the increasing in demand for food, which is fueled by the global economic growth and the changing consumption patterns in the developing world towards a more protein rich diet.

» GLOBAL FOOD PRODUCTION MUST GROW BY 70% BY 2050 TO FEED THE WORLD «

UNITED NATIONS

THE YEAR IN BRIEF

JANUARY

FIRST CLOSING IN IFRS.

FEBRUARY

PURCHASE OF SOYFACTORY IN JAPAN.

MARCH

PREPARATION FOR SEEDING. TRACTORS AND SEEDERS PURCHASED IN THE U.S. ARE DELIVERED AND ASSEMBLED.

APRIL

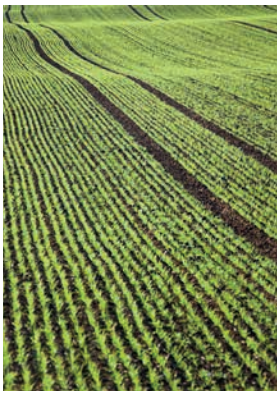
SEEDING STARTS ON APRIL 14.

MAY

SEEDING IS COMPLETED ON MAY 23.

JUNE

SOYBEAN CALIBRATION FACTORY IS DISASSEMBLED AND SHIPPED FROM JAPAN.



JULY

CONSTRUCTION OF ADDITIONAL STORAGE FACILITIES IS STARTED. HARVEST OF WINTER WHEAT.

AUGUST

NEW ENERGY EFFICIENT DRYERS ARE INSTALLED, EACH WITH A CAPACITY OF 1000 TONS OF CORN PER DAY.

SEPTEMBER

HARVEST OF SPRING CROPS IN FULL SWING. SEEDING OF WINTER CROPS.

OCTOBER

SOYBEAN AND SUNFLOWER HARVEST COMPLETED. 46 000 TONS OF CORN SOLD AND SHIPPED.

NOVEMBER

CORN HARVEST COMPLETED ON NOVEMBER 28.

DECEMBER

DECISION TO EXPAND IN CHERNIGOV AND POLTAVA. 8500 HECTARES IN POLTAVA AND CHERNIGOV IS ADDED TO THE LAND BANK.

FINANCIAL STATEMENTS IN BRIEF

	THOUSANDS OF SEK	
	2012	**2011**
Revenues, including revaluation of biological assets	358 644	238 393
Gross profit	69 503	74 474
EBITDA	96 360	92 903
EBITDA margin	27%	39%
Net profit	43 403	37 637
Net margin	12%	16%
Depreciation of immaterial assets	23 185	23 044
Depreciation, total	-39 813	-35 182
Total assets	346 140	327 128
Total equity	269 936	243 422
Total liabilities	76 204	83 706
No of shares	7 807 775	7 807 775
Profit per share	5,6	4,8
Equity per share	34,6	31,2
Equity ratio	78%	74%
Cultivated area, ha	36 453	34 292
Revenues/ha	9 839	6 952
EBITDA/ha	2 643	2 709

THIS IS GRAIN ALLIANCE

THIS IS GRAIN ALLIANCE

We are a progressive Swedish-Ukrainian agriculture producer. By using modern technology, financial management and efficient agricultural production methods we create sustainable value for shareholders and the communities where we operate. All our farmland is located in Ukraine, a country which once was the bread basket of Europe and has the potential to be the bread basket of the world. The combination of the most fertile soils in the world, highly developed infrastructure and a proximity to all major import markets makes Ukraine ideal for large scale farming.

- Grain Alliance has experience from 15 years of successful large scale farming in Ukraine, achieving production yields in par with Western peers.
- We control around 45 000 hectares of which 38 000 hectares are cultivated, and we are continuously expanding our territory.
- All our fields are leased from small landowners.
- Our main crops are corn, sunflower and soybeans.

OUR LOCATIONS

The head office is located in Stockholm, but all operations takes place in Ukraine. Berezan, 80 km east of the capital Kiev, is where the Ukrainian main office is located.

- We operate in 4 regions of Ukraine; Kiev, Chernigov, Poltava and Cherkassy.
- The radius between the farms in Kiev, Chernigov and Poltava is 80 km.
- We have 4 strategically placed grain elevators; 3 with on site railroad.
- The climate our regions are classified as humid continental climate excellent for crops growing with an annual precipitation between 550-630 mm.

OUR STRATEGY

As global demand for food is increasing we see an opportunity to create long term value for shareholders and local communities by improving and expanding our agricultural operations in Ukraine.

- Our production is targeted towards export markets in the Middle East, Africa and Asia.
- We are a low cost producer with access to low cost transport in the form of railroad and the black sea ports of Ukraine.
- We produce high quality non-genetically modified soybeans for human consumption on the Asian markets.
- Storage is a central part of our activities giving us the opportunity to sell our crops at any point of time without extra costs or loss of quality.
- during the coming years to increase the cultivated area and expand our storage capacities accordingly.

FOR MORE INFORMATION, VISIT WWW.GRAINALLIANCE.COM

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BUSINESS CONCEPT AND STRATEGY

GROWTH IN GLOBAL DEMAND

As the world population grows, particularly in urban areas, and incomes increase, diets and consumption patterns change demand for food and agricultural products expand. The United Nations estimates that the population will reach 9 billion people by 2050. The planet is facing a great challenge in securing food for its population at the same time as the threat from climate change looms. Investments in enhancing the productivity of agriculture are essential. Investing in agriculture and food systems is one of the most effective strategies for reducing poverty, hunger and promoting sustainability. These prospects have driven the prices for agriculture commodities to record levels and experts foresee a stabile price growth. In the backdrop of this development it is evident that the most efficient and sustainable producers have the opportunity to create large value for shareholders and the communities where they operate.

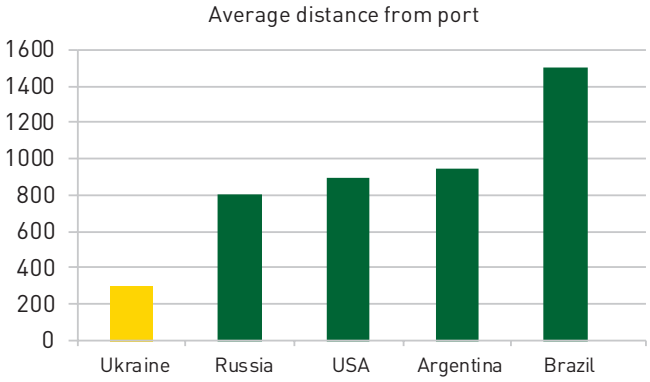
To respond to the increasing demand there are two things that have to be done; 1) increase the total cultivated area and 2) increase the efficiency in the agriculture. The world has to farm more land and get more back from each cultivated hectare or as the United Nations puts it "immense effort will have to go into new, better and more intensive way of producing our food". Still, globally the rate of growth in yields of the major cereal crops has been declining steadily. The rate of growth in global cereal yields dropped from 3.2 percent per year in 1960 to 1.5 percent in 2000. The growth originating from the introduction of genetically modified crops has come to a halt as a result of massive protest against such types of crops. When it comes to increasing the farmland it is hard for Europe and the US to expand the cultivated area. It is equally biologically difficult for these regions to increase yields substantially. Therefore it is the developing world which has to produce more, but in order for these countries to become competitive they have to make major improvements into infrastructure, roads, railroads and ports.

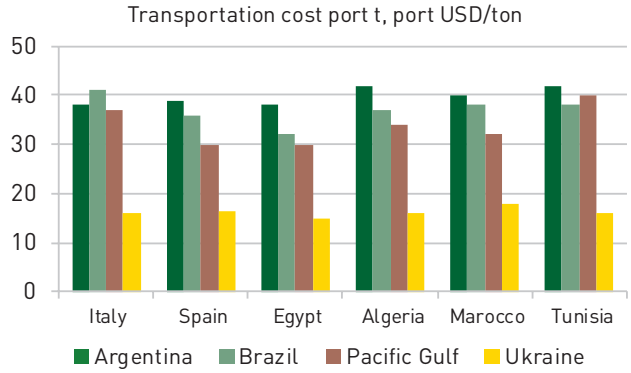
Ukraine's strategic position in between Europe and Russia resulted in massive infrastructure investments from the Soviet Union. The country has a developed network of railways, 22 000 km of tracks, which are linked to Russia, Belarus, Moldova, Poland, Romania, Slovakia and Hungary, 18 sea ports along the Black Sea and Sea of Azov coastline and 3 deep sea ports that can handle the largest panamax size ships. In addition to this the country is blessed with 25% of the total global supply of some of the most fertile soils in the world, chernozem – the black earth. The distance, and the transport costs, from the black sea ports to the major importers are small in comparison to the once from the American continents. This combination gives Ukraine the potential to become one of the leading agricultural producers in the world. The bread basket of the world.

GRAIN ALLIANCE

Grain Alliance's goal is to become the most efficient agricultural producer in the region. We focus on the efficiency and the profitability of the operations, not the size of the cultivated area. All our lands are leased and we are not involved in any land speculation. Privately funded agriculture on a large scale is a relative new phenomenon on the planet. Farming on a large scale is very different from a traditional family farm. Therefore we have taken great efforts to create our own structured approach to large scale farming. The saying all business is local is true for all business, but even more true for agriculture. Grain Alliance relies on a strong local Ukrainian management, which is open for new thoughts. Our agriculture approach is based on adopted best practices. If it works there, it works here. Nevertheless, the size of the operations demands a strict financial and operational control, in which IT plays a crucial role.

Sustainability also plays a central role for all Grain Alliance's operations. In order to secure sustainable high yields and profits we need to take care of the environment, the soils, and the communities where we operate.





THE MOST FERTILE SOILS OF THE WORLD

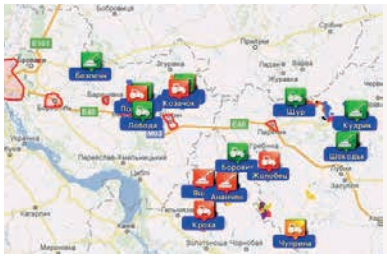
Out of Ukraine's total area, 60 million hectares, 42.9 million hectares is arable land, out of this 28 million hectares are cultivated (65%). Ukraine has one of the world's richest black soils, the so called chernozem, in fact around 25 percent of the global black soil assets is located in Ukraine. The fields are large in international comparison.

INCREASE IN CULTIVATED AREA A PRIORITY

Grain Alliance is continuously increasing the land bank and the cultivated area. Our goal in the medium term is to grow the cultivated area beyond 80 000 hectares. Our structured approach to farming ensure an expansion without loss of control and profitability.

NEW INVESTEMENTS IN JAPAN

The market for non-genetically modified soybeans is expanding rapidly as demand grows for healthy alternatives as a source of protein. Grain Alliance has, together with Japanese, U.S. and Korean partners, developed this branch of our activities. The goal is to supply the Asian markets with soybeans, corresponding to the highest quality requirements for human consumption.



STATE OF THE ART INFORMATION TECHNOLOGHY SYSTEMS

Grain Alliance has developed an unique agriculture resource planning system, Agrido, which covers all aspects of large scale farming. The unique systematic approach of Grain Alliance ensures the efficient use of resources and promotes sustainability. Since the introduction Grain Alliance has reduced fuel consumption with more than 20 percent.

MODERN EQUIPMENT CONTINUALLY ADDED

The ability to store grain with quality necessary to ensure that grain remains in good condition and gives the opportunity to sell at any time without additional expenses. Grain Alliance is continuously expanding the existing storage facilities.

SIMPLY BETTER NUMBERS

Grain Alliance modern approach to large scale farming results in stabile and consistent production yields of our main crops, well in par with Western peers. Corn, soybeans and sunflower are our main crops. The climate and fertile soils of Ukraine creates excellent conditions for these crops.

INVESTING IN THE COMMUNITY

A strong social commitment is a pillar in our approach to business. We strive to be responsible investors and focus not only in our operations but also in the people and the communities where we operate. Our corporate social responsibility program centers around, sustainability, responsibility, education and social welfare.

» AGRICULTURAL INVESTMENT IS ONE OF THE MOST IMPORTANT AND EFFECTIVE STRATEGIES FOR ECONOMIC GROWTH AND POVERTY REDUCTION IN RURAL AREAS «

UNITED NATIONS

HOW TO READ OUR FINANCIAL STATEMENTS

As an agricultural producer we use IAS 41 Agriculture. The main assets employed in all agricultural companies are biological assets, which are subject to growth, deterioration, production, and reproduction during the production cycles. Due to these unique features of biological assets, specific accounting and reporting treatment is provided under IFRS. Under IFRS, companies involved into management of biological transformation of living animals or plants (biological assets) for sale, into agricultural produce, or into additional biological assets are required to comply with IAS 41 agriculture. According to this standard the biological transformation is recognized as the asset grows.

IAS 41 COVERS:

- biological assets - living animals or plants;
- agricultural produce (the harvested product) at the point of harvest;
- government grants directed to biological assets.

All these biological assets are recognized at fair value minus estimated costs of sales at each balance sheet date. The fair value should represent the market price for the biological asset based on current expectations. Such fair values of biological assets are based on the following assumptions:

- the expected crop yield, based on the past crop yields and adjusted for current and predicted weather conditions;
- crop prices are obtained from externally verifiable sources;
- cultivation and production costs are projected based on actual historical cost;
- the discount rate used for 2012 was 16% reflecting the cost of money in Ukraine estimated by independent sources.

The gain or loss arising on initial recognition of a biological asset should then be incorporated into the company's income statement.

Example

For corn cultivated on 1000 ha with an expected yield of 7.0 t/ha and expected costs of 3800 SEK and SEK 2600 incurred in following periods, the price of corn was assumed at 1250 SEK per ton at the initial recognition of assets, SEK 1000 at the moment of harvest and SEK 1300/t at the moment of sale.

April	June 30	Sept 31	Nov 22	December 31
Seeding	Fair value estimation by DCF: 7500	Harvest	Sale: 1300 SEK/ton	Closing inventory: 0
		Booked at fair value: 7000	Revenue: 9100	Retained earnings: 2700
	Expenses of the period: -3800	Produce were previously booked at 7500	Cost of sales: -7000	Revenue: 9100
		Net loss from initial recognition of agricultural produce: -500	Gross profit: 2100	Net gain: 3700-3100=600
	Changes in fair value: 3700	Expenses of the period: -2600		Cost of sales: -7000
		Total net loss: -3100		Result: 2700

REPORT ON OPERATIONS

GRAIN ALLIANCE BACKGROUND

Grain Alliance is a leading agriculture producer in Ukraine with approximately 45 000 hectares under management. The foundation for Grain Alliance was laid on February 26 1998. Initially, the company was a provider of tillage services for agricultural producers, but already in summer 1998 the company started cultivating two thousand hectares of leased land. The area was gradually increased and in 2008 the total cultivated area reached more than 27 000 hectares. In May 2008 the founder, Alex Oronov an American entrepreneur, joined forces with a Swedish-Ukrainian team of entrepreneurs under the new company name - Grain Alliance.

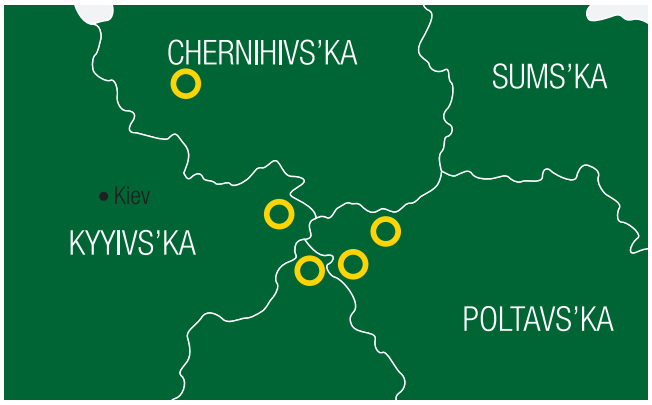
In conjunction with the entry of the Swedish partners, a strong financial and organizational expertise was added to the company and many parts of the existing organization were restructured. New modern financial management practices and more efficient agricultural practices were introduced. Moreover, additional capital was injected, which allowed for land expansion and new agricultural equipment to be added to the production process.

OPERATIONS

Grain Alliance operates in the black earth belt in Ukraine in four regions; Kiev, Poltava, Chernigov and Cherkassy. The operations are divided into four clusters, each cultivating between 8 000 to 12 000 hectares. Every cluster is equipped with modern agricultural machinery and the short distance between the regions also enables a more efficient usage of the machinery. The harvested grain is transported to one of the company's five grain elevators; three of these have direct railroad access.

GEOGRAPHY OF OPERATIONS

Grain Alliance's strategy is to efficiently operate agriculture clusters of 8 000 – 12 000 hectares in selected regions of Ukraine. The radius between the farms is approximately 80 km. The close proximity of the farms allows for far more efficient use of machinery and equipment and more cost-efficient transporting of tractors and harvesters between fields. The four drying and storage facilities can also efficiently service the existing farms. Fuel is one of the main costs of the operations. By having a high geographical concentration in the operations Grain Alliance reduces these costs. The long-term strategy is to reduce the overall fuel consumption by creating economies of scale.



AGRICULTURE OPERATIONS

Producing crops usually involves regular plowing and tilling, that stirs up the soil in various ways. Plowing and tilling is used to remove weeds, mix in soil amendments like fertilizers, shape the soil into rows and prepare the soil for seeding. Yet, it has been proven that this can lead to adverse effects, like making the soil too compact, loss of organic substances, loss or disruption of soil microbes, arthropods, and earthworms, and increased erosion where topsoil is blown or washed away. To avoid these unfavorable effects Grain Alliance uses a modified "no-till" method, the so called "mini-till". Evidence shows that repeated tillage destroys the soil and could potentially be damaging to the environment in the long run. Regular tilling degrades the fertility of soils, causes air and water pollution, intensifies drought stress, leads to an increased fuel consumption and even contributes to global warming. With the no-till and mini-till method crop residues or other organic substances are kept on the soil surface and seeding/fertilizing is done with minimal soil disturbance. No-till fields often have more beneficial insects, a higher microbial content, and a greater amount of soil organic material.

PROMOTING ENVIRONMENTAL SUSTAINABILITY

Sustainability is a key word in Grain Alliance's overall approach to large scale farming; therefore we have adopted a structured approach to environmental sustainability issues. Grain Alliance have adopted a balanced crop rotation plan geared towards soil recovery and soil protection. This plan is based on scientific analysis of the soil.

In order to monitor the soil quality and avoid any damage to the environment Grain Alliance has already in 2008 an in-house soil sampling laboratory, which monitors and measures the quality of our soils. In Ukraine there are only a handful of such laboratories. By continuously analyzing the soil the agronomists scientifically know what kind of fertilizer to use and in which quantities. Grain Alliance can also in time react to problems such as increased acidity of the soil. The information is stored in our management information system and changes in the composition of nutrients can be followed over the years. When expanding our territories a thorough analysis of the soil is performed. If laboratory analysis detects any deficiencies, measures are immediately taken. Grain Alliance is constantly making long term investments in the soil in order to maintain the biological balance.

The systematic and structured approach also provides a clear trace from seed to final plant, allowing Grain Alliance to declare, for each individual field, for instance what fertilizers have been used, in which quantities and in which period, and how they have affected the soil quality. Grain Alliance management information system provides full traceability of all crops grown. From seed to plant, we can monitor with exactness which operations have been carried out, which quantities of fertilizer and pesticides have been used, at what time, by whom, and with which piece of equipment, precipitation levels during the growth period, etcetera. By monitoring in detail all input and all field activities we ensure that we comply with all environmental regulations and recommendations and promote environmental sustainability.

FINANCIAL AND MANAGEMENT CONTROL

Strict financial and management control is a key component for all ongoing activities within Grain Alliance. Right from the start in 2008 the process of modernizing all aspects of the management of the company began, and the foundation for the company's integrated financial management information system, which goes by the name of "Agrido". During 2009 all parts of the operations where computerized and a massive training program was launched. The objective was to measure and monitor all ongoing activities in the company. Based on the data gathered, the management is able to make appropriate decisions and increase the efficiency of the operations. Agrido also contains an interface for GPS control of all the company's vehicles. This system makes it possible to control and manage in detail the seeding and harvesting.

2012 SEEDING CAMPAIGN

The fall preparations 2011 were carried out in due time, which gave Grain Alliance a head start. The spring seeding started on April 4 with the spring barley, sunflower and corn on April 16 respectively 18. The weather conditions during the seeding were favorable and all crops were seeded in due time. Newly purchased machinery and equipment were included in the process and improved the speed and quality of the seeding. The production approached were enhanced as a result of the technical and agronomical training of key members of staff during 2010 and 2011.

PRODUCTION VOLUME

In 2012 Grain Alliance produced in total 191 627 tons of grains and oil seeds from 36 453 hectares cultivated land, which can be compared with the total production volume of 2011, which was 216 746 tons. Unfavorable weather conditions for corn were the main reason behind the reduced production volumes.

Corn was the main crop during 2012, a total of 20 137 hectares were seeded with corn. The average yield ended upon 7.06 tons per hectare and totally 178 540 tons of corn were harvested. Despite the hot weather during summer 2012 Grain Alliance managed to improve the results on all other crops. The most significant improvements were observed for winter wheat, which increased by 92%, followed by spring barley with a 71% yield increase.

STORAGE

During 2012 Grain Alliance continued to improve and expand the existing elevators. The Elevator in Pirjatin was expanded by 12 000 tons and one additional acceptance unit. The elevators in Yagotin and Berezan were equipped with new energy efficient driers. The total drying capacity is around 3 200 tons of corn per day. A new flatbed warehouse storage was constructed in Yagotin and in Berezan the existing warehouses were refurbished and optimized, which increased the storage capacity slightly.

On the territory of the Baryshevka elevator the construction of the seeds calibration plant was initiated. The factory was acquired in May 2012 in Hokkaido, Japan, where it was removed and shipped to Ukraine. The factory is in full production by the first quarter of 2013. With the help of this facility, Grain Alliance is producing high quality seed and calibrated soybeans destined in accordance with Japanese and Korean customers' requests.

STORAGE

	Baryshevka	Berezan	Yagotin	Piryatin
Storage cap.	15 000 t	24 000 t	18 000 t	35 000 t
Storage type	Flat warehouses	Flat warehouses	Concrete silos	Steel silos
Drying cap.	200 t/day	1000 t/day	1000 t/day	1000 t/day
Railroad	On site	On site	8 km	On site
Shipment cap.	800 t/day	1000 t/day	400 t/day	1400 t/day

SALES 2012

Already in April the board of directors made the decision to sell 30 000 tons of corn from the upcoming harvest. Since the total storage capacity of Grain Alliance is too small to hold all the produced corn the company needed to secure immediate shipment. The shortage of railroad wagons and capacity related problems in the ports could cause severe logistical problems during harvest. Grain Alliance sells the majority of the production to the large global trading companies and each sale consists of large crop volumes. The local grain prices show a solid correlation with the international commodities markets, but during the peak harvest when the above mentioned logistical problems appear the correlation with the international commodities markets is lost. Instead a local price is forming, which is lower than the international pricing. Grain Alliance's sales strategy is to sell parts of the harvest before season and store and monitor the prices until the correlation has returned and the price level has normalized.

Year 2012 was a year characterized by large fluctuations in international commodity markets. This was mainly due to the extremely hot weather in the U.S., leading to a greatly reduced corn harvest. The lower production volumes drove prices sharply in the autumn, which also favored Grain Alliance.

PRODUCT VOLUME

CROP	2012 TOTAL AREA, ha	2011 TOTAL AREA, ha	2012 GROSS YIELD tons/ha	2011 GROSS YIELD tons/ha	2011-12 YIELD INCREASE/ DECREASE, %	2012 BEST FIELD tons/ha	2011 Best field tons/ha
Corn	20 137	18 349	7,06	9,73	-27%	12,06	13,00
Sunflower	6 937	7 867	2,64	2,45	8%	3,81	4,01
Soybean	4 382	2 778	2,10	2,05	2%	3,45	3,00
Winter wheat	3 432	1 773	4,36	2,27	92%	6,24	3,75
Spring wheat		2 797		1,36	n.a.		1,91
Spring barley	1 212	1 116	3,03	1,77	71%	3,67	2,38

DIRECTORS' REPORT

PROFIT/TURNOVER

Year 2012 was a year characterized by large fluctuations in international commodity markets. This was mainly due to the extremely hot weather in the U.S., leading to a greatly reduced corn harvest in major corn producing states in the United States. The lower production volumes drove prices sharply in the autumn, which also favored Grain Alliance. The company's corn harvest was lower than expected due to drought in the southern parts of Poltava region. Next to this was also the stock of corn from 2011 in the first quarter of 2012, which explains the reported increase in corn sales in 2012 in Note 5.

INVESTMENTS 2012

Grain Alliance continued during 2012 the planned investment program, which aims to increase efficiency and quality of the production.

	Qty	Total investment, KSEK
Harvesters, John Deere	6	6 911
Tractors, John Deere	2	2 114
Seeder, Kinze	1	474
Seeders, John Deere	3	686
Disc harrow	2	407
Harrow	3	1 016
Replacement light tractors	2	551
Sprayer	2	453
Total	**21**	**12 612**

In addition to the above mentioned investments all the existing elevator where enhanced and renovated at the following cost:

Total drying and storage, KSEK	**34 042**
Piryatin	13 382
Yagotin	6 437
Berezan	4 159
Baryshevka	10 064

EMPLOYEES

The number of employees on December 31 2012 amounted to 975, broken down on 244 women and 731 men. It is important to bear in mind that the number of employees varies significantly with the season.

SHAREHOLDERS

In total the company has 7 807 775 shares outstanding. The main shareholder, Ukrainian Investment AB, owns 7 437 848 shares, i.e. 95.3%.

ENVIRONMENT

The company has adopted a balanced crop rotation plan, which aims to avoid soil exhaustion and harm to the environment. The large investments made into new modern equipment also minimize and reduce pollution. The introduction of mini-till has resulted in a more efficient use of resources and reduced company-related Greenhouse Gas (GHG) emissions. The company intends to continue investing in more energy efficient production equipment the coming years. In addition to this Grain Alliance has greatly reduced the usage of natural gas for drying of grains and oil seeds by installing new energy efficient grain drying equipment.

HUMAN RESOURCES POLICY AND LABOR CONDITIONS

Grain Alliance has adopted an active policy which aims to educate and develop the employees. During 2012 key personnel were offered training in the fields of agronomy, agriculture technology, English language, financial and general management.

RISK

The agricultural operations are entirely conducted in Ukraine. The operations as such are exposed to risks in the form of volatile world prices, adverse weather and other external influences on soil and crops. Ukraine as a country also carries risks, both political and economic. See note 26 for more information about risks and risk management.

IMPORTANT EVENTS DURING THE PERIOD

The seeding campaign 2012 started on April 4 and was finished by May 15. The harvest of the winter crops strated July 4, the corn harvest was initiated on August 16. This was followed by the sunflower harvest on August 31. The harvest was concluded on November 29.

IMPORTANT EVENTS AFTER THE PERIOD

On February 8 respectively February 15, 7 000 ton of soybeans in stock were sold at an average price of 4 350 EXW UAH/ton, in total 30 MUAH. This can be compared with the book value of 4 080 UAH/t.

During the period December 2012 to February 2013 the company increased the area of operations by 10 000 hectares in the regions of Chernigov and Poltava.

PLANS FOR THE FUTURE

The Company will continue to produce crops in Ukraine and, if possible, increase the cultivated area. Since storage capacity is one of the largest bottlenecks in the production this will also be increased gradually during the coming years. No major change in the allocation of crops is foreseen.

KEY RATIOS

	2012	2011	2010
Turnover, KSEK	315 738	183 026	160 969
Operating profit/loss, KSEK	56 547	57 721	(4 314)
Profit after financial items, KSEK	43 403	37 637	(23 457)
Equity ratio %	77,9 %	74,4 %	30,3 %
Cash Flow, KSEK	56 678	(3 293)	(4 245)

OUTLINE OF THE PARENT COMPANY RESULTS

The following earnings are at the disposal of the Annual General Meeting:

Retained earnings	255 968 773 SEK
Net gain/loss for the year	(15 208 126 SEK)
	240 760 647 SEK

The Board proposes that the gain/loss be appropriated as follows:

To be carried forward	240 760 647 SEK
	240 760 647 SEK

Results of operations and financial position at year-end are shown in the following Income Statement and Balance Sheet that follows, as well as in the information contained in the Notes to accounts.

		The Group		The Parent Company	
	Notes	**2012**	**2011**	**2012**	**2011**
Revenue from sales	5	315 738	183 026	-	-
Net gain / (loss) on fair value measurement of biological assets and agricultural produce	16	42 906	55 367	-	-
Cost of sales	6	(289 141)	(163 920)	-	-
Gross profit		**69 503**	**74 473**	**-**	**-**
Other operating income	7	33 961	16 754	-	-
Selling, general and administrative expenses	8	(38 465)	(25 888)	(7 201)	(5 348)
Other operating expenses	9	(8 452)	(7 618)	-	-
Operating profit / (loss)		**56 547**	**57 721**	**(7 201)**	**(5 348)**
Finance costs	10	(8 274)	(23 570)	(3 983)	(5 305)
Finance income	11	2 076	5	1	-
Foreign exchange gain		(6 946)	3 481	(4 025)	3 753
Profit / (loss) before tax		**43 403**	**37 637**	**(15 208)**	**(6 900)**
Income tax expense	28	-	-		-
Profit / (loss) for the year		**43 403**	**37 637**	**(15 208)**	**(6 900)**
Whereof attributed to equity holders of the company		43 403	37 637		
Other comprehensive income					
Foreign exchange differences		-16 888	8 447	-	-
Tax effect		-	-	-	
Total comprehensive income for the year		**26 515**	**46 084**	**(15 208)**	**(6 900)**
Whereof attributed to equity holders of the company		**26 515**	**46 084**		

		The Group		The Parent Company	
	Notes	2012	2011	2012	2011
Non-current assets					
Intangible assets	12	24 557	50 840	-	-
Property, plant and equipment	13	174 934	153 421	-	-
Shares in subsidiaries	14	-	-	256 616	256 551
Biological assets	16	3 403	1 860	-	-
Other non-current assets	15	788	2 380	-	-
		203 682	208 501	256 616	256 551
Current assets					
Inventories	17	60 452	97 467	-	-
Biological assets	16	8 193	6 953	-	-
Trade and other receivables	18	2 344	1 627	-	-
Receivable subsidiary	18	-	-	11 763	71 304
Other current assets	18	16 058	10 239	1 691	1 748
Cash and cash equivalents	19	55 412	2 342	47 085	121
		142 459	118 628	60 539	73 173
Total assets		**346 140**	**327 129**	**317 155**	**329 724**
Equity					
Issued capital	20	11 556	11 556	11 556	11 556
Other contributed capital		278 295	278 295	-	-
Retained earnings		12 565	(30 837)	240 761	255 969
Foreign currency translation reserve		(32 480)	(15 592)	-	-
		269 936	**243 422**	**252 317**	**267 525**
Non-current liabilities					
Liability to non-controlling interests	10	3 444	3 674	-	-
Loans and borrowings	21	52 161	51 074	55 755	55 105
		55 605	54 748	55 755	55 105
Current liabilities					
Loans and borrowings	21	8 847	12 255	8 847	6 927
Trade and other liabilities	22	10 816	14 451	205	132
Other current liabilities	22	936	2 253	32	35
		20 599	**28 959**	**9 084**	**7 094**
Total liabilities		**76 204**	**83 707**	**64 839**	**62 199**
Total equity and liabilities		**346 140**	**327 129**	**317 156**	**329 724**

THE GROUP

	Issued capital	Other contributed capital	Retained earnings	Foreign exchange differences	Total equity
Balance at 31 December 2011	**7 178**	**164 366**	**(68 474)**	**(24 039)**	**79 031**
Profit for the year Loss for the year			37 637		37 637
Other comprehensive income				8 447	8 447
Total comprehensive income			37 637	8 447	46 084
Transactions with owners					
Issue of capital	4 378	113 929			118 307
Balance at 31 December 2011	**11 556**	**278 295**	**(30 837)**	**(15 592)**	**243 422**
Profit for the year			43 403		43 402
Other comprehensive income				(16 888)	(16 888)
Total comprehensive income			43 403	(16 888)	26 514
Transactions with owners					
Issue of capital					
Balance at 31 December 2012	**11 556**	**278 295**	**12 565**	**(32 480)**	**269 936**

THE PARENT COMPANY

	Issued capital	Other contri-buted capital	Retained earn-ings	Total equity
Balance at 31 December 2010	**7 178**	**164 366**	**(15 426)**	**156 118**
Loss for the year			(6 900)	(6 900)
Total comprehensive income			(6 900)	(6 900)
Transactions with owners				
Issue of capital	4 378	113 929		118 307
Balance at 31 December 2011	**11 556**	**278 295**	**(22 326)**	**267 525**
Loss for the year			(15 208)	(15 208)
Total comprehensive income			(15 208)	(15 208)
Transactions with owners				
Issue of capital	-	-		
Balance at 31 December 2012	**11 556**	**278 295**	**(37 534)**	**252 317**

	The Group		The Parent Company	
	2012	**2011**	**2012**	**2011**
Operating activities				
Profit / (loss) before tax	43 402	37 637	(15 208)	(6 900)
Non-cash adjustments:				
Depreciation and amortisation	39 561	36 191	-	-
Finance income	(577)	(5)	(1)	(3 753)
Foreign exchange gain	6 946	(3 481)	-	-
Finance costs	3 927	16 056	8 008	5 305
Non-controlling interests	(230)	1 807	-	-
Write down of property, plant and equipment	1 521	1 700	-	-
Working capital adjustments:				
Change in biological assets	(2 784)	(5 026)	-	-
Change in trade receivables and other current assets	(6 536)	(5 065)	55 575	(71 087)
Change in agricultural produce and other inventories	40 623	(64 216)	-	-
Increase in trade and other payables and other current liabilities	(4 952)	3 984	2 640	(11 842)
	120 901	**19 582**	**51 014**	**(88 277)**
Interest received	577	5	1	3 753
Income tax paid	-	(13)	-	-
Net cash flows from operating activities	**121 478**	**19 574**	**51 015**	**(84 524)**
Investing activities				
Purchase of property, plant and equipment	(50 591)	(27 854)	-	-
Prepayments for land lease rights	7 304	(3 422)	-	-
Proceeds from (payments for) other non-current assets, net	1 592	1 511	-	-
Proceeds from sale of assets classified as held for sale	-	-	-	-
Purchase of financial assets	-	-	(65)	(184)
Net cash flows used in investing activities	**(41 695)**	**(29 765)**	**(65)**	**(184)**
Financing activity				
Proceeds from loans and borrowings	59 452	90 634	-	-
Repayment of loans and borrowings	(78 720)	(191 944)	-	(28 285)
Issue of capital	-	118 307	-	118 307
Interest paid	(3 927)	(10 099)	(3 983)	(5 305)
Net cash flows from financing activities	**(23 105)**	**6 898**	**(3 983)**	**84 717**
Net change in cash and cash equivalents	56 678	(3 293)	46 967	9
Foreign exchange difference cash	(3 608)	113	-	-
Cash and cash equivalents at 1 January	2 342	5 522	120	111
Cash and cash equivalents at 31 December	**55 412**	**2 342**	**47 087**	**120**

NOTES TO THE ANNUAL REPORT AND THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

BZK Grain Alliance AB (hereinafter referred as the "Parent Company" or the "Company", registration number 556754-1056) was incorporated in Sweden on 19 March 2008. The registered office of the Company is Stockholm (Gamla Brogatan 29, 111 20, Stockholm) in Sweden.

As at 31 December the Company holds ownership interests in the following subsidiaries (hereinafter the Company together with its subsidiaries referred to as the "Group"):

Name	Corporate id.nr	Location	Function	2012	2011
Baryshevska Grain Company LLC	32886518	Ukraine, Baryshevka	Planting, livestock farming	100%	100%
Ukraine LLC	03772950	Ukraine, Chyutivka	Planting, livestock farming	94.2%	94.2%
Ukraine LLC	03771896	Ukraine, Ovsyuki	Planting, livestock farming	90%	90%
Grain Alliance Agroinvest Limited	HE281193	Cyprus	Dormant	100%	100%
Grain Alliance Holding Limited	HE281173	Cyprus	Dormant	100%	100%
Agrido LLC	38146829	Ukraine, Baryshevka	Dormant	100%	-

The principal activity of the Group is crops cultivation, cattle farming and sale of agricultural production in Ukraine.

GROUP RESTRUCTURING

Baryshevsky Grain Company LLC is the parent company of the Ukrainian subsidiaries in the Group. During 2012, no changes in the Group structure took place.

OPERATING ENVIRONMENT

The Ukrainian economy, where the Group's majority of operations are located, while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition, for example low levels of liquidity in the capital markets, high inflation and the existence of currency controls which cause the national currency to be limited liquidity outside of Ukraine. The stability of the Ukrainian economy will be impacted by the Government's policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve some risks that are not typical for developed markets.

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, instability in the capital markets, a significant deterioration in the liquidity of the banking sector, and tighter credit conditions within Ukraine. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the banking sector and providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding access to capital and its cost for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

2. BASIS OF PREPARATION

These consolidated financial statements were approved for issue by management on 4 of June 2013.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared on a historical cost basis, except for biological assets and agricultural produce, which are measured in accordance with the requirements of IAS 41 Agriculture as disclosed below in Note 3 Summary of significant accounting policies, as well as financial instruments.

IFRS 8 and IAS 33 has not been applied, because the company is not listed.

The consolidated financial statements are presented in thousands of Swedish Krona ("SEK") and all values are rounded to the nearest thousand ("SEK 000") except when otherwise indicated.

Each entity of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the local accounting standards. The consolidated financial statements of the Company and its subsidiaries are based on the statutory records and adjusted as necessary to comply with the requirements of IFRS.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2012.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS

Business acquisitions are accounted for the acquisition method, whereby the cost allocated to the acquired assets and liabilities at fair value at acquisition. If there is a positive difference this is recognized as goodwill. If there is a negative difference this is recognized in the income statement in the period it occurs.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the date of acquisition, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

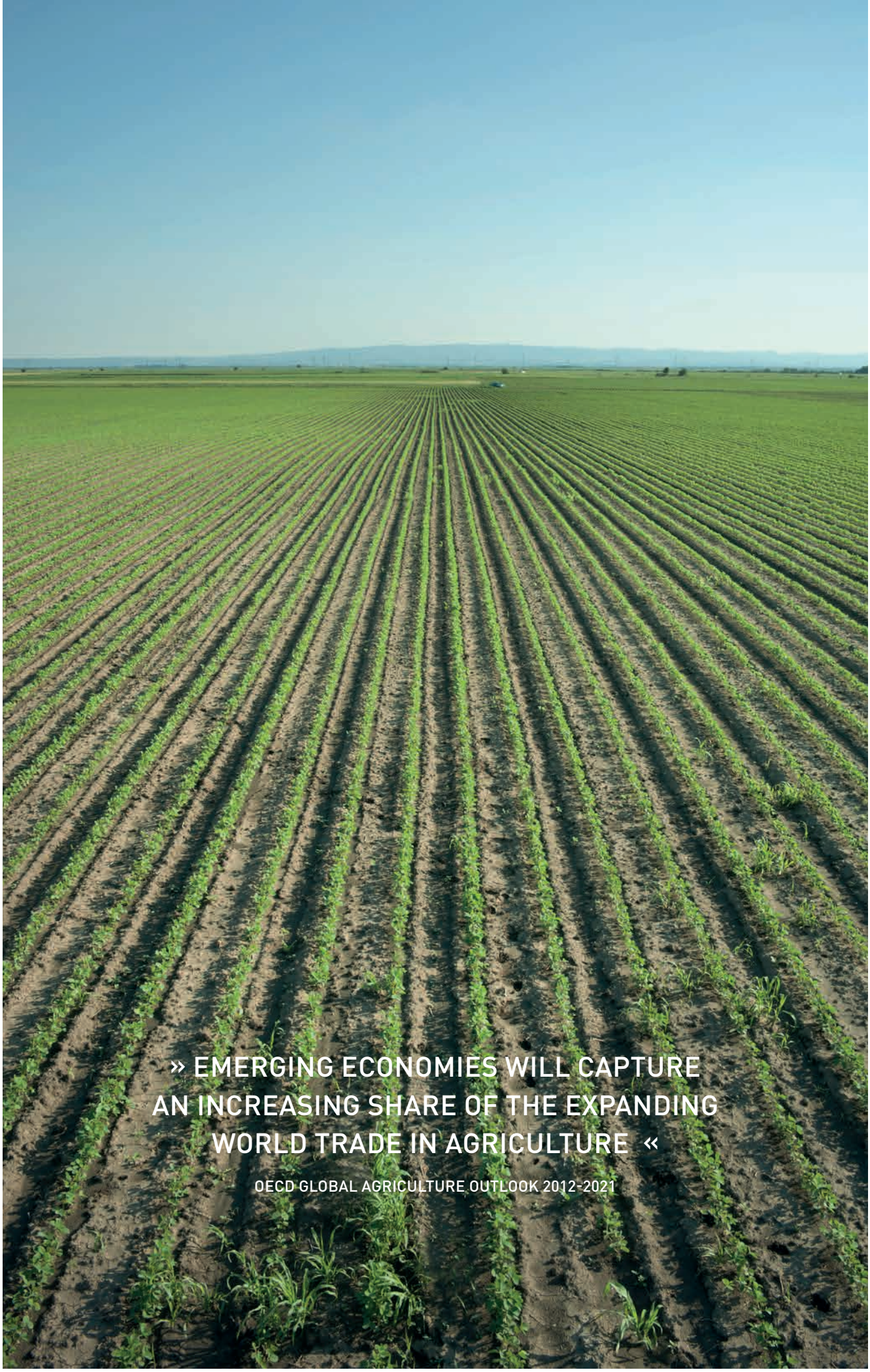
Where goodwill forms part of a cash-generating unit and that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. Any excess of fair value over consideration paid is recognised immediately in the profit and loss and presented therein as the gain from business combinations.

FUNCTIONAL AND PRESENTATIONAL CURRENCY

The functional currency of the Parent Company is Swedish Krona. The functional currency of the Ukrainian subsidiaries is the Ukrainian Hryvnia ("UAH") as this is the currency which reflects the economic substance of the underlying events and circumstances of the Ukrainian subsidiaries. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in other currencies are retranslated into the functional currencies at the statement of the financial position date at the functional currency rate of exchange ruling at that date. All differences are taken to the profit and loss. The income statement is translated at the average annual rate.

These financial statements are presented in SEK. The assets and liabilities of foreign subsidiaries are translated into SEK at the end of each year and profit and loss items and cash flows of the foreign subsidiaries are translated at exchange rates that approximates the exchange rates at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

The UAH is not a convertible currency outside the territory of Ukraine. Within Ukraine, official exchange rates are determined daily by the National Bank of Ukraine ("NBU"). Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the NBU. The translation of UAH denominated assets and liabilities into SEK for the purpose of the consolidated financial statements does not necessarily mean that the Company could realise or settle, in SEK, the reported values of these assets and liabilities. Likewise, it does not necessarily



» EMERGING ECONOMIES WILL CAPTURE AN INCREASING SHARE OF THE EXPANDING WORLD TRADE IN AGRICULTURE «

OECD GLOBAL AGRICULTURE OUTLOOK 2012-2021

mean that the Company could return or distribute the reported SEK value of capital and retained earnings to its shareholders.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. As at 1 January 2010, the date of the first-time adoption of IFRS, the fair value of property, plant and equipment of the Ukrainian subsidiaries, which was appraised by an independent appraisal, were regarded as deemed cost.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period. Overhaul costs also represent a component of an asset.

Major spare parts and stand-by equipment qualify as property, plant and equipment when they are expected to be used during more than one year.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in profit and loss as incurred.

When each major inspection is performed, its cost is recognised as a component in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

Estimates of remaining useful lives are made on a regular basis for all buildings, plant and equipment, with annual reassessments for major items. Changes in estimates are accounted for prospectively. Depreciation commences on the first day of the month following the date of putting the item into operation.

Depreciation is calculated on a straight-line basis over the estimated remaining useful life of the asset as follows:

Asset category	Useful life (years)
Buildings	25-50
Plant and equipment	7-30
Vehicles	7-10
Furniture and fittings	3-5

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit and loss in the year the item is derecognised.

CONSTRUCTION IN PROGRESS

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

BIOLOGICAL ASSETS AND AGRICULTURAL PRODUCE

Plants

Biological assets comprise crops that have been planted but have not yet been harvested. In accordance with IAS 41, the Group's biological assets have been recognized and are measured at fair value less cost to sell. Agricultural produce harvested from the Group's biological assets is measured at its fair value less estimated costs to sell at the point of harvest. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

Due to the lack of observable market prices for certain biological assets in their condition (i.e. as a growing crop) at the time of valuation, the Group estimates the fair value of its biological assets by means of the discounted cash flow method (i.e., by calculating the present value of the net cash flows expected to be generated from the assets when sold as a grown crop, discounted at a current market-determined rate). In particular, the Group based its estimates of fair value of certain biological assets on certain key assumptions, including:

- expected crop yield is based on past crop yield adjusted for actual weather conditions;
- production costs expected to be incurred are projected based on the Group's actual, historical information and forecast assumptions;
- discount rate calculated as a weighted current market-determined rate.

A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less cost to sell of a biological asset is included in profit or loss for the period in which it arises. A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting. It is included in profit or loss for the period in which it arises.

After the point of harvest the agricultural produce is measured at the lower of the fair value at the point of harvest less cost to sell and net realizable value. Any losses between the initial recognition of the agricultural produce at the point of harvest and net realizable value are included in profit and loss for the period in which they arise.

Once agricultural produce is sold its carrying value at the date of the sale is transferred to cost of sales.

Livestock

The livestock is measured at fair value less estimated point-of-sale costs. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit based on the most likely market.

INVENTORIES OTHER THAN BIOLOGICAL ASSETS AND AGRICULTURAL PRODUCE

Inventories other than biological assets and agricultural produce are stated at the lower of cost and net realisable value. The cost of inventories includes the expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost is determined based on the FIFO method. The cost of preparing and treating land prior to seeding is classified as work in progress. After seeding, costs of field preparation are transferred to biological assets.

MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings.

Subsequent measurement

The subsequent measurement of financial assets and liabilities depends on their classification as described below:

De-recognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs. The amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss in finance costs for loans and operating expenses for receivables.

CASH AND SHORT-TERM DEPOSITS

Cash and short-term deposits are defined as cash on hand, demand deposits, deposits paid as security and short term, highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risks of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Net assets of Ukrainian subsidiaries

The net assets of Ukrainian subsidiaries, which are registered as limited liability companies, may be redeemed in cash at the request of the participants. The subsidiaries' obligation to redeem participants' interest gives rise to a financial liability for the present value of the redemption amount even though the obligation is conditional on the participant exercising the right. It is impractical to determine the fair value of this liability as it is unknown when and if participants will withdraw from the subsidiaries. As a practical expedient, the Group measures the liability to non-controlling interests, which are presented within non-current liabilities, at the carrying value of the subsidiaries' net assets that are not controlled by the Group.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

PENSION

The Parent Company reports defined contribution pension plan. The costs for pensions are recognized as an expense in the period incurred. Net pension costs are shown in Note 23.

Wages and salaries, pension costs and other social costs. Short-term employee benefits such as salary, social security contributions, withholding taxes, etc. are recognized as an expense in the period incurred. There is no share-based remuneration in the Company.

CONTINGENT ASSETS AND LIABILITIES

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

LEASES

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating leases

Operating lease payments, including those made before or at the inception of the lease in order to secure the right to obtain a lease agreement, are recognised as an expense in profit or loss on a straight-line basis over the lease term.

INTANGIBLE ASSETS

Intangible assets are represented by land lease rights. The land lease rights acquired as part of a business combination are initially measured at fair value and amortised over the period of the underlying leases. The period of amortisation is within the range of 5 years. The carrying value of land lease rights is assessed for impairment whenever there is an indication that the lease rights may be impaired.

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration receivable, excluding discounts, rebates, and other sales taxes or duty.

Sale of agricultural produce

Revenue from the sale of agricultural produce is recognised when the significant risks and rewards of ownership of the produce have passed to the buyer, usually on delivery of the produce.

GOVERNMENT GRANTS

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

TAXATION

Ukrainian fixed agricultural tax

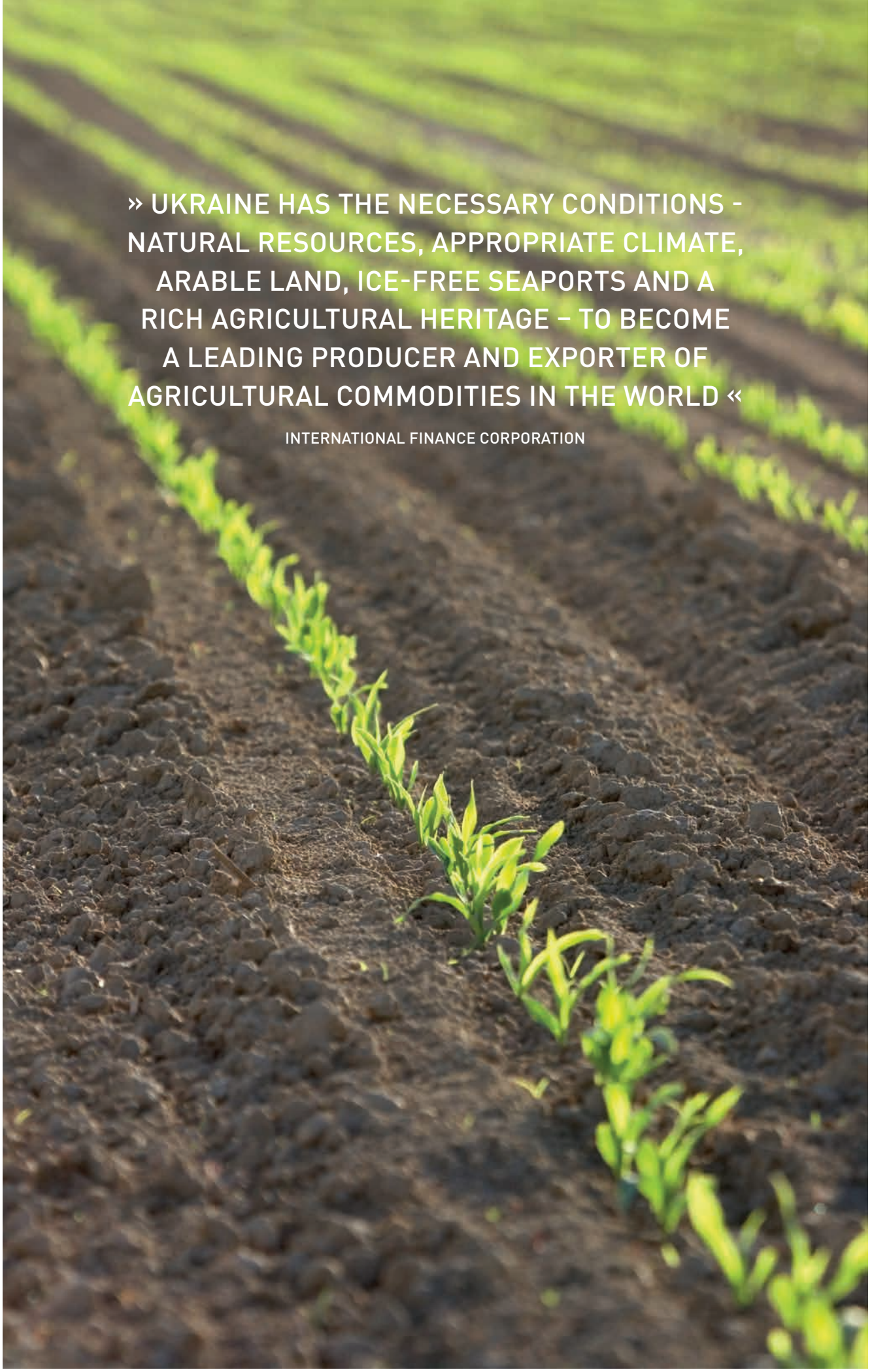
According to effective Ukrainian tax legislation, the Group's entities, as involved in production, processing and sale of agricultural products may opt for paying fixed agricultural tax ("FAT") in lieu of income tax, land tax and some other local taxes if the revenues from sale of their own agricultural products constitute not less than 75% of their total (gross) revenues. The FAT is assessed at 0.15% on the deemed value of the land plots owned or leased by the entity (as determined by the relevant State authorities). As at 31 December 2012, all Group's subsidiaries (except Agrido LLC) elected to pay the FAT. The fixed agricultural tax is in the annual report defined as costs of sales.

Deferred tax / temporary differences

The Group does not recognize any deferred tax on the deficits in Sweden because there are no taxable income there. Nor is there any temporary differences in the Ukrainian subsidiaries when it does not recognize any variable tax expense based on the results, see writing above.

Value added tax

Revenues, expenses, assets and liabilities are recognised net of the amount of value added tax ("VAT") except where VAT incurred on a purchase of assets or services is not recoverable from the taxation



» UKRAINE HAS THE NECESSARY CONDITIONS - NATURAL RESOURCES, APPROPRIATE CLIMATE, ARABLE LAND, ICE-FREE SEAPORTS AND A RICH AGRICULTURAL HERITAGE – TO BECOME A LEADING PRODUCER AND EXPORTER OF AGRICULTURAL COMMODITIES IN THE WORLD «

INTERNATIONAL FINANCE CORPORATION

authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable.

The Group's entities in the Ukraine, in frames of their production and sale of agricultural products, met certain quantitative thresholds ("qualifying entities") and are subject to a special VAT regime. The net VAT receivable reported cannot be claimed for refund or carried forward. At the same time, the entity has a right to retain the net VAT payable and use the respective amounts for funding its agricultural activities without making payments to special restricted accounts. Accordingly, the net VAT payables, determined at the level of individual tax payers, are recognized as income in the period in which they arise. The net VAT receivable is charged to profit or loss as incurred or included into carrying amount of assets acquired during the period, whichever is deemed more appropriate and applicable under the circumstances.

ACCOUNTING PRINCIPLES OF THE PARENT COMPANY

The parent company, BZK Grain Alliance AB, financial statements have been prepared according to the Swedish Annual Accounts Act and recommendation RFR 2 Accounting for legal entities issued by the Swedish Financial Reporting Board. RFR 2, implies that the parent company, as the legal entity shall apply all EU-approved IFRS and statements as far as possible within the framework of the Annual Accounts Act and considering the relationship between accounting and taxation. The recommendation specifies the exceptions and additions that shall be made in accordance with IFRS

INVESTMENTS IN SUBSIDIARIES (PARENT COMPANY'S SEPARATE FINANCIAL STATEMENTS)

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The investments in subsidiaries are initially recognised at cost. The carrying value of the investments is reviewed when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the investments are written down to their recoverable amount in accordance with IAS 36. Impairment losses are recognised in the statement of comprehensive income. An assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the recoverable amount of the investments. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the investment's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the investment does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined had no impairment loss been recognised for the investment in prior years. Such reversal is recognised in the statement of comprehensive income.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations will come into effect from the financial year 2013 or later and have not been applied in preparing these financial statements and is not expected to have any effect on BZK Grain Alliance AB's earnings and financial position.

- IFRS 7 Financial instruments (2013)
- IFRS 9 Financial instruments (2015)
- IFRS 10 Consolidated Financial Statements (2015)
- IFRS 11 Joint Arrangements (2015)
- IFRS 12 Disclosurees of interest other Entities (2015)
- IAS 19 Employee benefints (2013)

Improvement projects in 2012:

- IAS 1 Presentation of Finaincial Statement
- IAS 16 Property, Plant och Equipment
- IAS 32 Financial Instruments
- IAS 34 Interim Financial Reporting

Is not expected to have any impact on the Group's results and financial position.

IFRS 13 Fair Value Measurement. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

4. SIGNIFICANT ACCOUNTING JUDGMENT, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

JUDGMENTS

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of lease agreements

A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is for the majority percent of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments almost amount to the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

The Group has made significant investments into property, plant and equipment. These assets are tested, as described below, for impairment annually, or when circumstances indicate there may be a potential impairment.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset.

The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Estimation of recoverable amounts of assets is based on management's evaluations, including determining appropriate cash generating units, estimates of future performance, revenue generating capacity of the assets and assumptions of the future market conditions. Changes in circumstances and in management's evaluations and assumptions may give rise to impairment losses in the relevant periods.

Fair value of biological assets

Due to the lack of observable market prices for sowings in their condition at the reporting dates, the fair value of such biological assets was estimated by present valuing the net cash flows expected to be generated from the assets discounted at a current market-determined pre-tax rate.

Fair values of biological assets were based on the following key assumptions:

- expected crop yield is based on past crop yield adjusted for actual weather conditions;
- production costs expected to be incurred are projected based on the Group's actual, historical information and forecasted assumptions;
- expected selling prices for agricultural produce at the point of harvest less cost to sell;
- discount rate calculated as a weighted current market-determined rate.

Weather

The Group is highly susceptible to changes in growing and weather conditions, which can impact the production of crops, the costs of production and crop yields. The Group must perform key operations at specific times, in particular during the limited autumn and spring planting periods and the narrow summer and autumn harvest periods. As a result, weather conditions during planting or harvest can have a significant impact on the Group's results of operations.

The Group's hiring policy contemplates the employment of the sufficient number of the agricultural experts, whose responsibility also includes the analysis, prognoses and correction of the Group's operating plans with respect to the weather issues. While making weather analysis and prognoses the engaged experts use the reliable external sources specialized in the weather analysis for the agricultural sector.

» THE FOOD AND AGRICULTURAL SECTOR HAS GREATER ECONOMIC POTENTIAL IN UKRAINE THAN IN ANY OTHER REGION OF THE FORMER SOVIET UNION «

WORLD BANK

5. REVENUE FROM SALES

The Group	2012	2011
Corn	212 405	122 769
Sunflower	58 237	44 337
Wheat	17 229	6 256
Milk	4 652	4 357
Soy	13 556	694
Barley	4 239	552
Other	-	1 589
	310 318	180 554
Auxiliary agricultural services	5 420	2 472
	315 738	**183 026**

Revenues from three major customers, each individually exceeding 10% of total revenue, amounted to SEK 269 404 (2011: sex customers – SEK 168 288).

6. COST OF SALES

The agricultural produce sold by the Group is measured based on the fair value of the respective agricultural produce sold less estimated cost to sell at the time of harvesting and taking into account subsequent write downs to net realisable value, if any.

In 2012, the cost of auxiliary agricultural services provided by the Group to third parties totalled SEK 1 209 (2011: SEK 2 150).

7. OTHER OPERATING INCOME

The Group	2012	2011
VAT retained (i)	30 828	16 062
Gain on accounts payable written off	1 804	246
Government subsides recognized as income	52	198
Received penalties	1 150	-
Other income	127	248
	33 961	**16 754**

(i) VAT retained represents VAT attributable to the qualifying sales of the Group's agricultural producers, which, according to the Ukrainian legislation (Note 3) is not payable to the budget.

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	The Group		The Parent Company	
	2012	2011	2012	2011
Payroll and related taxes	16 811	13 306	1 724	1 429
Professional services (i)	12 528	7 595	5 477	3 919
Fuel and other materials used	2 223	1 877	-	-
Services provided by third parties	4 387	1 381	-	-
Depreciation expenses	1 067	937	-	-
Repair and maintenance expenses	561	404	-	-
Representative costs and business trips	371	228	-	-
Other expenses	517	160	-	-
	38 465	**25 888**	**7 201**	**5 348**

Audit fees for the parent company and the Group in year 2012 and 2011 relates to fees payable to Ernst & Young. Audit fees included in the general and administrative costs are as follows:

	The Group		The Parent Company	
	2012	2011	2012	2011
Audit assignment fees	615	652	615	-
Audit work not related to ordinary audit assignment	554	93	554	93
Tax advice	-	-	-	-
Other assignments	-	-	-	-
	1 169	**745**	**1 169**	**93**

9. OTHER OPERATING EXPENSES

The Group	2012	2011
Charity expenses	5 347	1 395
Loss on disposal of inventories	1 019	1 281
Increase in bad debt allowance for trade receivables	1 538	1 234
Write off of unrecoverable VAT	-	780
Crops losses (i)	-	640
Other expenses	548	2 288
	8 452	**7 618**

(i) The losses are mainly incurred during the crops storage and attributable to the spoilage of crops negatively impacted, at the different stages of biological transformation, by the climatic, deceases and other factors inherent to the agricultural activity.

10. FINANCE COSTS

	The Group		The Parent Company	
	2012	2011	2012	2011
Interest on loans and borrowings	8 066	20 965	3 983	5 305
Non-controlling interests	(230)	1 807	-	-
Convertible loans charges	438	402	-	-
Finance lease charges	-	396	-	-
	8 274	**23 570**	**3 983**	**5 305**

Liabilities for non-controlling interests are reported as current liabilities and not at equity, as they may be redeemed in cash at the request of the owners. Because of this, also minority interests are presented in the results as a financial item. See also accounting principles.

11. FINANCE INCOME

	The Group	
	2012	2011
Interest income	2 076	5
	2 076	**5**

12. INTANGIBLE ASSETS

The movement in intangible assets was as follows:

The Group	2012	2011
Cost		
At 1 January	**113 855**	**110 433**
Additions	-	430
Foreign currency translation differences	(5 986)	2 992
	(1 318)	
At 31 December	**106 554**	**113 855**
Accumulated amortisation		
At 1 January	**(63 015)**	**(37 894)**
Charge for the year	(23 185)	(25 121)
Foreign currency translation differences	4 206	(897)
At 31 December	**(81 994)**	**(63 015)**
Net book value		
At 1 January	**50 840**	**72 539**
At 31 December	**24 557**	**50 840**

Intangible assets include land lease rights acquired by the Group in business combinations. Land lease rights are amortised over the lease term on a straight line basis.

13. PROPERTY, PLANT AND EQUIPMENT

	The Group					
	Building & Constructions	Plant & Equipment	Vehicles	Furniture & fittings	Construction in progress	Total
Cost						
As at 1 January 2011	**54 163**	**27 760**	**39 237**	**1 317**	**24 175**	**146 652**
Additions	-	-	-	-	28 556	28 556
Transfer	7 702	24 301	2 193	91	(34 287)	-
Disposals	(929)	(192)	(346)	(99)	(134)	(1 700)
Foreign currency translation differences	1 471	2 098	866	24	78	4 537
As at 31 December 2011	**62 407**	**53 967**	**41 950**	**1 333**	**18 388**	**178 045**
Additions	-	-	-	-	50 845	50 845
Transfer	10 555	31 577	8 309	1 519	(51 960)	-
Disposals	(571)	(827)	(150)	(131)	(488)	(2 167)
Foreign currency translation differences	(4 415)	(4 715)	(3 026)	(142)	(1 116)	(13 413)
As at 31 December 2012	**67 976**	**80 003**	**47 083**	**2 579**	**15 669**	**213 310**
Depreciation						
As at 1 January 2011	**(2 476)**	**(4 067)**	**(4 950)**	**(162)**	**-**	**(11 656)**
Depreciation for the year	(2 381)	(4 294)	(5 438)	(153)	-	(12 267)
Disposals	111	120	47	22	-	300
Foreign currency translation differences	(195)	(351)	(445)	(12)	-	(1 003)
As at 31 December 2011	**(4 941)**	**(8 592)**	**(10 786)**	**(305)**	**-**	**(24 624)**
Depreciation for the year	(2 744)	(6 802)	(6 640)	(442)	-	(16 628
Disposals	161	358	73	55	-	646
Foreign currency translation differences	422	814	959	34	-	2 231
As at 31 December 2012	**(7 103)**	**(14 222)**	**(16 394)**	**(657)**	**-**	**(38 375)**
Net book value						
As at 31 December 2011	**57 466**	**45 375**	**31 164**	**1 028**	**18 388**	**153 421**
As at 31 December 2012	**60 874**	**65 780**	**30 689**	**1 922**	**15 669**	**174 934**

As at 31 December 2012 no property, plant and equipment was pledged as a security for the bank loans (2011: SEK 0 - note 21).

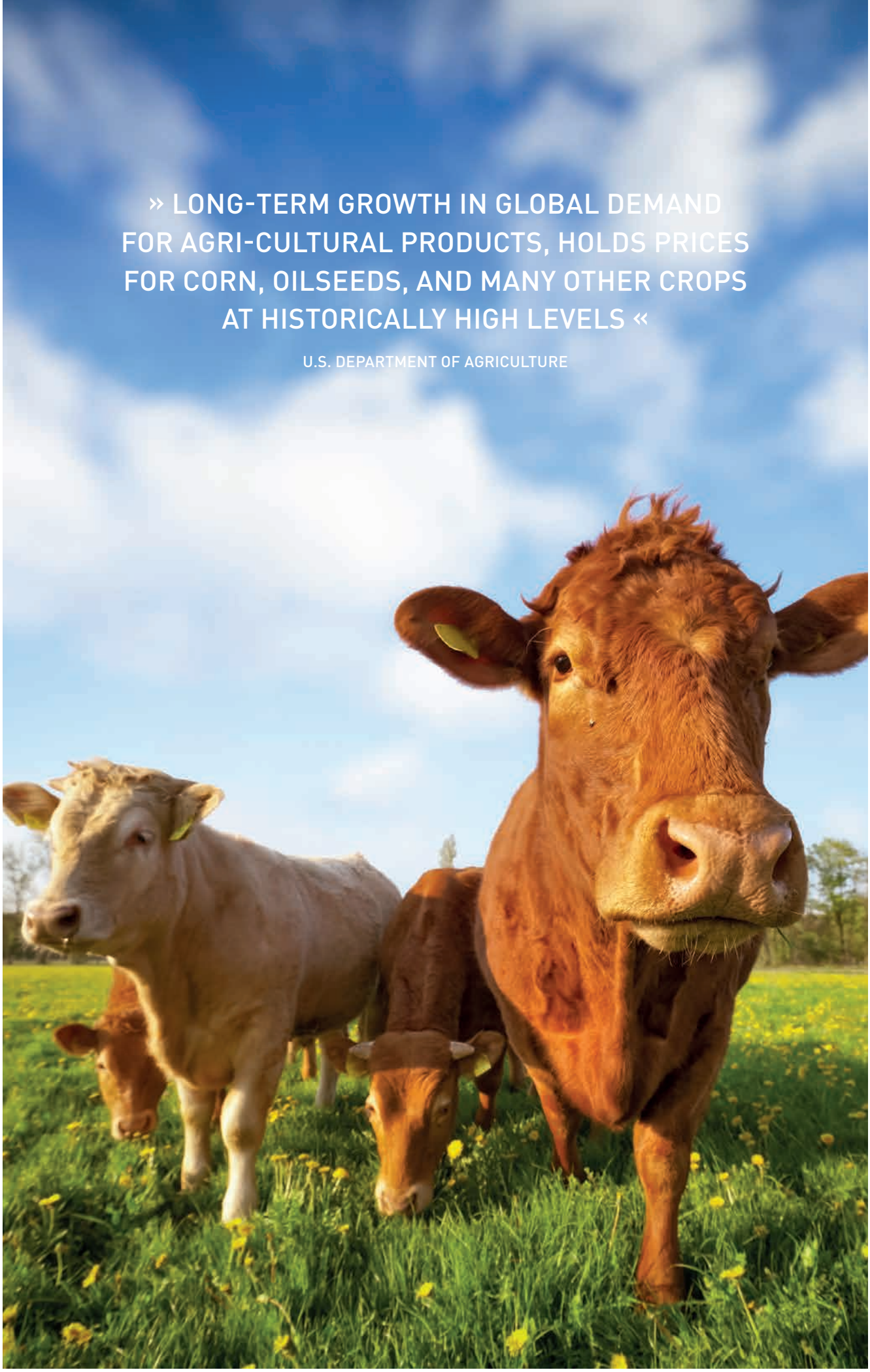
The cost, accumulated depreciation and the carrying value of machinery and equipment held under finance lease agreements as at 31 December were as follows:

The Group	2012	2011
Cost	-	1 822
Accumulated depreciation	-	(728)
	-	**1 093**

14. SHARES IN SUBSIDIARIES

	The Parent Company
As at 1 January 2011	256 367
Purchase price	184
As at 31 December 2011	256 551
Investments in subsidiaries	65
As at 31 December 2012 (i)	256 616

(i)	2012	2011
Barishevskya Grain Company LLC	256 367	256 367
Grain Alliance Agroinvest Ltd	92	92
Grain Alliance Holding Ltd	92	92
Agrido LLC	65	-
	256 616	**256 367**



» LONG-TERM GROWTH IN GLOBAL DEMAND FOR AGRI-CULTURAL PRODUCTS, HOLDS PRICES FOR CORN, OILSEEDS, AND MANY OTHER CROPS AT HISTORICALLY HIGH LEVELS «

U.S. DEPARTMENT OF AGRICULTURE

15. OTHER NON-CURRENT ASSETS

	The Group	
	2012	2011
Value added tax (Note 3)	525	1 723
Other non-current assets	263	657
	788	2 380

16. BIOLOGICAL ASSETS

A reconciliation of changes in the carrying amount of biological assets is as follows:

		The Group		
	Note	Plants	Animal-breeding	Total
Carrying amount at 1 January 2011		956	2 831	3 787
Increase due to purchases and subsequent expenditures		142 203	1 596	143 799
Decrease due to crops harvest	(i)	(193 070)	-	(193 070)
Decrease due to sales		-	(1 376)	(1 376)
Net gain / (loss) arising from changes in fair value of biological assets and agricultural produce (less cost to sell)	(ii)	54 500	867	55 367
Livestock losses		-	(68)	(68)
Currency translation differences		255	120	375
Carrying amount at 31 December 2011	(iii)	4 843	3 970	8 813
Increase due to purchases and subsequent expenditures		222 993	897	223 890
Decrease due to crops harvest	(i)	(262 151)	-	(205 309)
Decrease due to sales		-	(1 154)	(1 154)
Net gain / (loss) arising from changes in fair value of biological assets and agricultural produce (less cost to sell)	(ii)	40 267	2 639	(13 936)
Livestock losses		-	-	-
Currency translation differences		(356)	(352)	(708)
Carrying amount at 31 December 2012	(iii)	5 596	6 000	11 596

(i) Crops harvested during the year are initially recognised at fair value less costs to sell at the time of harvest.

For determination of fair value of agricultural produce, the domestic crop prices, where supported by management plans, less costs to sell at the time of harvest are used. Crop production for the years ended 31 December 2012 and 2011 was as follows:

	The Group			
	2012		2011	
	Tons harvested	*FV less cost to sell at the time of harvest*	*Tons harvested*	*FV less cost to sell at the time of harvest*
Corn	142 104	112 800	177 259	135 831
Sunflower	18 328	33 132	19 321	33 707
Wheat	14 971	13 345	7 812	5 547
Soybean	9 219	37 672	5 736	13 327
Barley	3 551	3 305	1 014	612
Other	6 584	5 054	5 603	4 046
	194 757	**205 308**	**216 745**	**193 070**

(ii) The gain arising from the change in fair value less costs to sell of plants represents the aggregate gain arising during the period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets. A discounted cash flow model was used to determine the fair values of biological assets. The discounted cash flow model is based on the following significant assumptions:

	The Group			
	2012		2011	
	Yield in tons per hectare	*Price per ton less cost to sell*	*Yield in tons per hectare*	*Price per ton less cost to sell*
Winter wheat	5	1 219	4	1 085
Winter rye	4	1 219	2	825
Winter barley	-	-	-	-

(iii) Biological assets as at 31 December comprised:

Livestock

	The Group			
	2012		2011	
	Number, heads	*Number, heads*	*Number, heads*	*Carrying value*
Livestock	1 042	5 599	1 021	3 382
Pigs	490	364	748	544
Horses	49	37	50	44
	1 581	**6 000**	**1 819**	**3 970**

Livestock at 31 December 2012 comprises SEK 3 403 of non-current biological assets (2011: SEK 1 860.

Plants

	The Group			
	2012		2011	
	Hectares	*Carrying amount*	*Hectares*	*Hectares*
Winter wheat	4 256	5 380	3 337	4 826
Winter rye	76	216	108	17
Winter barley	-	-	-	-
	4 332	**5 596**	**3 445**	**4 843**

17. INVENTORIES

	The Group	
	2012	2011
Agricultural produce (at fair value less costs to sell or net realisable value) (i)	27 317	61 677
Work in progress (at cost) (ii)	27 363	27 643
Raw materials (at cost) (iii)	4 603	6 751
Fertilizer, herbicide and pesticide (at cost)	670	1 011
Other inventories (at cost)	500	385
	60 452	**97 467**

(i)
Agricultural produce is measured at the lower of the fair value at the time of harvest less cost to sell and net realizable value.

(ii)
Work in progress represents the cost of preparing and treating land prior to seeding.

(iii) Raw materials mainly comprise seeds, other chemicals and fuel.

18. TRADE AND OTHER RECEIVABLES, OTHER CURRENT ASSETS

	The Group		The Parent Company	
Trade and other receivables	2012	2011	2012	2011
Trade receivables	1 873	509	-	-
Trade receivables due from related party (Note 24)	-	818	11 763	71 304
Loans issued to employees	658	690	-	-
Less: bad debt allowance (i)	(187)	(390)	-	-
	2 344	**1 627**	**11 763**	**71 304**
Other current assets				
Deferred expenses	1 719	2 622	-	-
Advances paid	13 735	7 486	1 688	1 688
Taxes recoverable and prepaid	435	-	23	-
Other	169	131	-	60
	16 058	**10 239**	**1 691**	**1 748**

(i)

	The Group
	Provision for bad debts
As at 1 January 2011	**428**
Charge for the year	1 234
Used amounts (ii)	(1 277)
Foreign exchange translation difference	5
As at 31 December 2011	**390**
Charge for the year	195
Used amounts (ii)	(380)
Foreign exchange translation difference	(18)
As at 31 December 2012	**187**

(ii) relates to bad debt loss that has been established during the year

19. CASH AND CASH EQUIVALENTS

	The Group		The Parent Company	
	2012	2011	2012	2011
Cash:				
- on bank accounts	55 379	2 320	47 085	121
- on hand	33	22	-	-
Deposit:				
- in UAH, 10% p.a.	-	-	-	-
- in USD, 7% p.a.	-	-	-	-
	55 412	**2 342**	**47 085**	**121**

20. SHARE CAPITAL

The registered share capital amounts to SEK 11 556 (2011: SEK 11 556) and consists of 7 807 775 shares (2011: 7 807 775 shares). BZK Grain Alliance AB only has one class of shares carrying equal voting power.

21. LOANS AND BORROWINGS

As at 31 December 2012 loans and borrowings are as follows:

			Maturity		
			2013	2014	
	Currency	*Interest*	*Current portion*	*Non-current portion*	*Total*
The Group					
Related party (Note 24)	SEK	3,5-7%	8 847	52 161	61 008
			8 847	**52 161**	**61 008**
The Parent Company					
Related party (Note 24)	SEK	3,5-7%	8 847	55 755	64 602
			8 847	**55 755**	**64 602**

As at 31 December 2011 loans and borrowings are as follows:

			Maturity		
			2012	2013	
	Currency	*Interest*	*Current portion*	*Non-current portion*	*Total*
The Group					
Related party (Note 24)	USD	-	5 070	-	5 070
Related party (Note 24)	SEK	3,5-7%	6 927	51 074	58 001
Finance lease obligations	USD	Libor 3m	258	-	258
			12 255	**51 074**	**63 329**
The Parent Company					
Related party (Note 24)	SEK	3,5-7%	6 927	55 105	62 032
			6 927	**55 105**	**62 032**

Convertible loans

The Extraordinary General Meeting in BZK Grain Alliance AB decided in 2009 to issue convertible bonds up to a maximum of SEK 45 million, which entitles holders to convert bonds up to a maximum total of 1 million shares in the Company with a quotient value of SEK 1.48 per share. To the extent that conversion has not taken place on 1 April 2018 at the latest, the then outstanding portion of the principal amount of the convertible bonds is due for payment on 30 April 2018. A holder of convertible bonds is entitled to request conversion of his claim to new shares during the period 1 January 2015 to 1 April 2018 at a conversion rate of SEK 45 per share.

Convertible loans are registered with Euroclear and carry an annual interest rate of 7%, which is payable on 30 April each year. The loan falls due on 30 April 2018.

When calculating the market rate at the time of the loan, the interest rate was estimated at 9%. Convertibles are a compound financial instrument which is divided into its components (equity and debt). The debt on 31 December 2012 was SEK 36,5 million (2011: 36 million), and the equity portion was approximately 4.8 million (which has been recorded as retained earnings).

22. TRADE AND OTHER LIABILITIES, OTHER CURRENT LIABILITIES

	The Group		The Parent Company	
	2012	2011	2012	2011
Trade and other liabilities				
Trade liabilities	5 909	9 854	65	6
Payroll and related taxes	2 578	2 826	140	126
Unused vacations accrual	2 273	1 764	-	-
Liabilities related to acquisition of subsidiary	-	-	-	-
Other	56	7	-	-
	10 816	**14 451**	**205**	**132**
Other current liabilities				
Value added tax	68	889	-	-
Other taxes	188	460	-	-
Advances received	297	576	-	-
Income tax payable	-	-	-	-
Other	383	326	32	35
	936	**2 253**	**32**	**35**

23. NUMBER OF EMPLOYEES AND EMPLOYEE BENEFITS

Number of employees

	2012			2011		
	Women	Men	Total	Women	Men	Total
Sweden	-	1	1	-	1	1
Ukraine	244	730	974	284	867	1 151
	244	**731**	**975**	**284**	**868**	**1 152**

The management of the Group consists of 100% male.

Employee benefits

The Parent Company	2012	2011
Board and senior executives	1 125	949
Other employees	-	-
Pension costs	197	152
Social security costs	401	328
	1 723	**1 429**

During the year no salaries, remuneration or pension expenses have been paid to the Board members.

The Group	2012	2011
Board and senior executives	2 065	3 316
Other employees	31 779	26 201
Pension costs Board and senior executives	556	960
Pension costs other employees	11 602	8 168
Social security costs	401	349
	46 403	**38 994**

24. RELATED PARTY DISCLOSURES

Ultimate Controlling Party

As at 31 December 2012 the majority owner of the Parent Company is Ukrainian Investment AB, which is a subsidiary of Claesson & Anderzén AB. A citizen of Sweden, Mr Johan Claesson, a citizen of Sweden, has the controlling interest in Claesson & Anderzén AB.

THE GROUP

When the customs procedures in Ukraine often are too complicated for the company's U.S. suppliers of used equipment, purchases are made by a related party, UkrEthanol LLC, who has knowledge and experience to handle customs declaration. At December 31, the Group's outstanding balances with related parties as follows:

The Group	2012	2011
Entity under common control		
Loans and borrowings	(60 232)	(63 071)
Of which:		
CA Investment AB	(7 935)	(6 050)
CA Agroinvest AB	(50 984)	(50 444)
Ukrainian Investment AB	(1 313)	(6 577)
Trade and other receivables	3 960	673
Of which:		
UkrEtanol LLC	3 247	-
Svitanok Ltd	212	168
Radovenyuk E.A	500	-
Bereznyaki F.G	1	473
Bessmetniy, VP	-	6
Ignatenko, T	-	26
Other current assets	270	274
Of which:		
Bezsmertniy V.P	251	-
Svitanok Ltd	19	263
Oronov, A	-	11

For the year ended 31 December the Group's transactions with related parties are as follows:

The Group	2012	2011
Entities under common control		
Interest expenses	(3 425)	(4 783)
Of which:		
CA Investment AB	(217)	(225)
CA Agroinvest AB	(3 123)	(3 076)
Ukrainian Investment AB	(85)	(1 482)
Entities with significant influence over the Group		
Sales of services	-	13
Of which:		
Svitanok Ltd	-	13
Purchase of services	(4 389)	-
Of which:		
Radovenyuk E.A	(1 039)	-
Radovenyuk A.F	(736)	-
UkrEthanol LLC	(2 614)	-
Purchases of seeds	(779)	(546)
Of which:		
UkrEthanol LLC	-	(546)
Bereznyaki	(779)	-
Purchases of property, plant and equipment	(9 400)	(10 107)
Of which:		
UkrEthanol LLC	(8 947)	(10 107)
Slaviya Ltd	(453)	-

Compensation to key management personnel

For the year ended 31 December 2012, remuneration paid by the Group to key management personnel was SEK 2 466 (2011: SEK 2 319). Compensation included contractual salaries and related taxes.

Key management personnel consists of six individuals as at 31 December 2012 (2011: six).

THE PARENT COMPANY

As at 31 December the Company's balances owed to and due from related parties are as follows:

	2012	2011
Entity under common control		
Loans and borrowings (Note 21)	(60 232)	(57 722)
Of which:		
CA Investment AB	(7 935)	(6 050)
CA Agroinvest AB	(50 984)	(50 444)
Ukrainian Investment AB	(1 313)	(1 228)
Subsidiary		
Trade and other receivables	11 763	71 304
- Baryshevski Grain Company LLC		

For the year ended 31 December the Company's transactions with the related parties under common control are as follows:

	2012	2011
Interest expenses	(3 425)	(4 783)
Of which:		
CA Investment AB	(217)	(225)
CA Agroinvest AB	(3 123)	(3 076)
Ukrainian Investment AB	(85)	(1 482)

Compensation to key management personnel

For the year ended 31 December 2012, remuneration paid to key management personnel is SEK 1 526 (2011: SEK 1 277). Compensation comprised the contractual salary and related taxes.

Key management personnel consist of one individual as at 31 December 2012 (2011: one).

25. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Taxation

The Group's operating activities are concentrated in Ukraine as disclosed in Note 1. Ukrainian legislation and regulations regarding taxation and other operational issues continue to evolve. Legislation and regulations are not always clearly written. Management believes that the Group has complied with all regulations and paid or accrued all applicable taxes. Where the risk of outflow of resources is probable, the Group has accrued tax liabilities based on management's best estimate.

The Group's operations and financial position will continue to be affected by Ukrainian political developments including the application of legislation and tax regulations. Management is of the opinion that the contingencies relating to the Group's operations are not of greater significance than those of similar businesses in Ukraine.

Operating lease commitments of the Group

The Group has entered into, or acquired, commercial lease agreements for land. The amount of lease payments is subject to renegotiation on an annual basis. At the end of each of the lease terms, the lessee has the right to renew the lease agreements. Total costs for commercial lease agreements for land during 2012 was 29 933 (2011: 19 161).

Future minimum rentals payable under non-cancellable operating land leases comprise:

	2012	2011
Up to 12 months	27 788	19 027
1-5 years	51 267	39 475
Over 5 years	12 588	11 570
	91 643	**70 072**

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments are comprised of trade receivables and liabilities, loans and borrowings, cash and cash equivalents. The main purpose of these financial instruments is to provide funding for the Group's operations. The Group has various other financial assets and liabilities such as other receivables and other liabilities, arising in the course of its operations. Fair values of the Group's financial instruments are close to their carrying amounts.

The main risks arising from the Group's financial instruments are market risk, liquidity risk, credit risk and agricultural risk. The policies for managing each of these risks are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and currency risk. Financial instruments exposed to market risk include loans and borrowings, deposits, accounts receivable, accounts payable and finance leases.

The sensitivity analyses in the following sections relate to the position as at 31 December 2012 and 2011. They have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies are all constant. In calculation of sensitivity analysis, the sensitivity of the relevant profit and loss item is the effect of the assumed changes in the respective market risks. This is based on the financial assets and financial liabilities held on 31 December 2012 and 2011.

Interest rate risk

The principal interest rate risk relates to financial lease obligations. The Group or the Company have not entered into any transactions to hedge these interest rate risks. The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, all other variables equal, of the Group's loss before tax.

	Change in basis points	Effect on profit before tax	
		The Group	The Parent Company
2012			
Change in interest rate (LIBOR)	23,2	(21)	(21)
Change in interest rate (LIBOR)	-23,2	21	21
2011			
Change in interest rate (LIBOR)	23.2	(72)	(66)
Change in interest rate (LIBOR)	-23.2	72	66

Foreign currency risk

The Group performs its operations in Swedish Krona ("SEK"), Ukrainian Hryvnia ("UAH"), US dollar ("USD") and Euro ("EUR"). The Group attracts a substantial amount of foreign currency denominated loans and borrowings, and is thus exposed to foreign exchange risk. Foreign currency denominated loans and borrowings give rise to foreign exchange exposure. The Group has not entered into transactions to hedge against these foreign currency risks.

Currency risks as defined by IFRS 7 arise when financial instruments are denominated in a currency that is not the functional currency, and are of a monetary nature; translation-related risks are not taken into consideration. Relevant risk variables are generally non-functional currencies in which the Group has financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rate, all other variables equal, of the Group's loss before tax.

	Change in basis points	Effect on profit before tax	
		The Group	The Parent Company
2012			
Change in USD exchange rate	-15%	(9 558)	(9 442)
2011			
Change in USD exchange rate	15%	(5 481)	5 348
Change in USD exchange rate	-15%	5 481	(5 348)

Liquidity risk

The objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers as well as loans and borrowings. Management analyses the aging of assets and maturity of liabilities and plans the liquidity depending on expected repayment of various instruments. In the case of insufficient or excessive liquidity in individual entities, management relocates resources and funds to achieve optimal financing of business needs. The table below summarises the maturity profile of the financial liabilities at 31 December based on contractual undiscounted payments:

	The Group					The Parent Company				
	Payable on demand	Less than 3 months	3 to 12 months	1 to 5 years	Total	Payable on demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
31 December 2012										
Loans and borrowings, principal amount	-	-	8 847	48 071	56 918	-	-	8 847	51 664	60 511
Interest payable	-	-	-	4 091	4 091	-	-	-	4 091	4 091
Trade and other liabilities (Note 22)	-	3 579	8 172	-	11 751	-	237	-	-	237
	-	**3 579**	**17 019**	**52 162**	**72 760**	**-**	**237**	**8 847**	**55 755**	**64 839**
31 December 2011										
Loans and borrowings, principal amount	-	258	7 898	51 664	59 820	-	-	6 927	51 664	58 591
Interest payable	68	-	-	3 441	3 509	-	-	-	3 441	3 441
Trade and other liabilities (Note 22)	-	2 700	11 751	-	14 451	-	41	-	-	41
	68	**2 958**	**19 649**	**55 105**	**77 780**	**-**	**41**	**6 927**	**55 105**	**62 073**

Credit risk

Sales are performed only to recognised, creditworthy third parties. The policy is that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and, therefore, the exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 18.

The ageing analysis of the trade and other receivables is as follows:

The Group

		Past due, but not impaired				
	Neither past due, nor impaired	Less than 3 months	3-6 months	6-12 months	More than 12 months	Total
31 December 2012						
Trade and other receivables	23	2 344	-	-	-	2 367
	23	**2 344**	**-**	**-**	**-**	**2 367**
31 December 2011						
Trade and other receivables	119	1 508	-	-	-	1 627
	119	**1 508**	**-**	**-**	**-**	**1 627**

The Parent Company

		Past due, but not impaired				
	Neither past due, nor impaired	Less than 3 months	3-6 months	6-12 months	More than 12 months	Total
31 December 2012						
Receivable subsidiary	11 763	-	-	-	-	11 763
Trade and other receivables	23	-	-	-	-	23
	11 786	**-**	**-**	**-**	**-**	**11 786**
31 December 2011						
Receivable subsidiary	-	-	-	71 304	-	71 304
Trade and other receivables	-	1	-	-	-	1
	-	**1**	**-**	**71 304**	**-**	**71 305**

Capital management

Management considers debts and net assets attributable to majority participants as primary capital sources. The objective of capital management is to safeguard the ability to continue as a going concern in order to provide returns on investment for shareholders and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and sustainability of the development strategy. The capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital, and flexibility relating to the access to capital markets.

Management monitors capital using a gearing ratio, which is net debt divided by total net assets attributable to majority shareholders plus net debt, including in the net debt loans and borrowings, finance lease liability, trade and other liabilities, less cash and cash equivalents.

	The Group		The Parent Company	
	2012	2011	2012	2011
Loans and borrowings	61 008	63 329	64 602	62 032
Trade and other liabilities	11 752	14 451	237	132
Less cash and cash equivalents	(55 412)	(2 340)	(47 085)	(120)
Net debt	17 348	75 440	17 754	62 044
Equity	269 936	243 422	252 317	267 525
Total equity and net debt	287 284	318 862	270 071	329 569
Gearing ratio	**6%**	**24%**	**6%**	**19%**

Management monitors the capital structure on a regular basis and may adjust its capital management policies and targets following changes in the operating environment, market sentiment or its development strategy. The policy is to maintain a gearing ratio below 50%.

Agricultural risk

Agricultural risk arises from the unpredictable of weather, pollution and other risks relating to the performance of crops. In order to manage the level of risk associated with agricultural activity, the Group holds a diversified portfolio of arable crops.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate. However considerable judgement is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation. All financial assets and liabilities are valued at amortised cost. Set out below is the comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the consolidated statement of financial position:

The Group

	Carrying amount		*Fair value*	
	2012	**2011**	**2012**	**2011**
Loans and receivables				
Cash and cash equivalents	55 412	2 340	55 412	2 340
Trade and other receivables	2 344	1 628	2 344	1 628
Other financial liabilities				
Trade and other liabilities	11 752	14 451	11 752	14 451
Loans and borrowings	61 008	63 329	61 008	63 329

The Parent Company

	Carrying amount		*Fair value*	
	2012	**2011**	**2012**	**2011**
Loans and receivables				
Cash and short-term deposits	47 085	120	47 085	120
Trade and other receivables	11 763	71 304	11 763	71 304
Other financial liabilities				
Trade and other payables	237	132	237	132
Loans and borrowings	64 602	63 032	64 602	63 032

28. INCOME TAX

The Parent Company

As at 31 December 2012, the tax loss carried forward is SEK 31 348 (2011: SEK 18 552). The Company has not recognized deferred tax assets as deficit.

29. EVENTS AFTER THE REPORTING DATE

At the end of the first quarter of 2013 the factory for calibration, sorting and cleaning of soybeans was completed. The factory will be used to improve the quality of the seed used, and to sort beans in accordance with Japanese and Korean client's directives.

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BZK GRAIN ALLIANCE AB
CORPORATE IDENTITY NUMBER: 556754-1056

ANNUAL REPORT AND CONSOLIDATED ACCOUNTS
FOR THE FINANCIAL YEAR 1 JANUARY 2012 - 31 DECEMBER 2012

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